

## MEMORANDUM

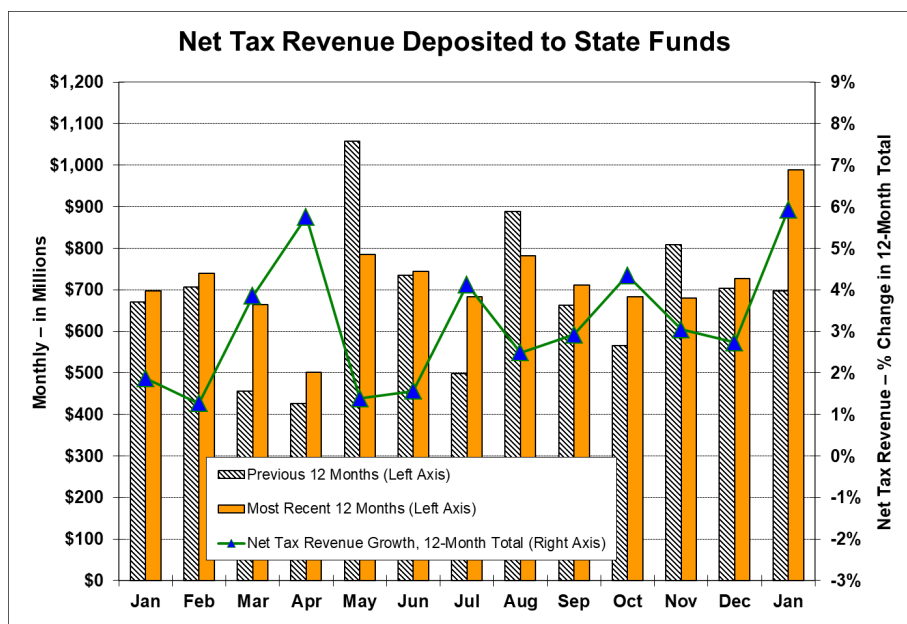
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: February 22, 2018

### Twelve-Month Total Net Tax Receipts Through January 31, 2018

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending January 31, 2018, with comparisons to the previous 12 months. January 2017 to January 2018 one-month comparisons are also presented. The source of the information is the State Accounting System, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

Net tax revenue totaled \$989.0 million in January 2018, an increase of \$291.3 million (41.8%) compared to the previous January. Federal tax law changes, differences in withholding and sales/use tax deposit dates, and reduced income tax refunds all contributed to the outsized increase in January net tax revenue. Much of the increase is temporary and will dissipate in early February and when individual income tax returns are filed for tax year 2017. Over the most recent 12 months, net tax revenue increased \$486.3 million (5.9%).

## Year-Over-Year Comparison — Net Tax Revenue

During the 12-month period ending January 31, 2018, net revenue from all taxes deposited to State funds totaled \$8.689 billion, an increase of \$486.3 million (5.9%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$353.2 million, 10.0%) – Early tax year 2017 income tax payments, withholding tax deposit date changes, and reduced income tax refunds issued account for up to \$210.0 million (59.5%) of the growth through the end of January.
- Corporate Income Tax (positive \$41.1 million, 10.5%) – After being generally down year-over-year for the months of October 2015 through May 2017, annual growth in corporate income tax revenue turned positive this past June.
- Sales/Use Tax (positive \$92.7 million, 3.4%) – Sales/use net tax growth breakdown for the most recent 12 months:
  - Gross tax receipts from the sale of vehicles (deposited to the Road Use Tax Fund) increased \$11.1 million (3.0%).
  - Sales/use tax deposited to other State funds, mainly the Flood Mitigation Fund, increased \$14.7 million.
  - Sales/use tax deposited to the State General Fund increased \$82.7 million (2.9%).
  - Refunds of State General Fund sales/use tax payments increased \$21.4 million.
  - Sales tax payments to the school infrastructure account (recorded as tax refunds) decreased \$5.5 million.
- Bank Franchise Tax (positive \$3.0 million, 8.4%) – Over the most recent 12 months, tax deposits increased \$4.5 million, while tax refunds increased \$1.5 million.
- Fuel Tax (negative \$4.6 million, -0.7%) – According to Department of Revenue monthly fuel sales [reports](#), the total gallons<sup>1</sup> subject to fuel tax increased 2.7% over the most recent 12-month period. The net fuel tax revenue decrease, despite an increase in taxed fuel sales, is caused by a significant increase over the past 12 months in fuel tax refunds issued. The number of gross taxable gallons sold over the most recent 12 months, along with the percentage change when compared to the previous 12 months, are as follows:
  - Unblended gasoline,<sup>2</sup> 612.4 million gallons, -1.5%.
  - Gasoline blended with ethanol, 1.175 billion gallons, 3.5%.
  - Diesel, including biodiesel blends, 721.4 million gallons, 1.4%.
  - Aviation, jet, and other, 46.4 million gallons, 5.7%.
- Gambling Tax (positive \$2.6 million, 0.9%) – According to Racing and Gaming Commission statistics, 11 of Iowa's 19 State-regulated casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending January 31, 2018. The combined AGR change for the 19 facilities was positive 1.3% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.463 billion, an amount that is 0.4% below the annual AGR peak (December 2012).
- Real Estate Transfer Tax (positive \$0.8 million, 3.7%).
- Cigarette and Tobacco Tax (negative \$6.2 million, -2.8%).

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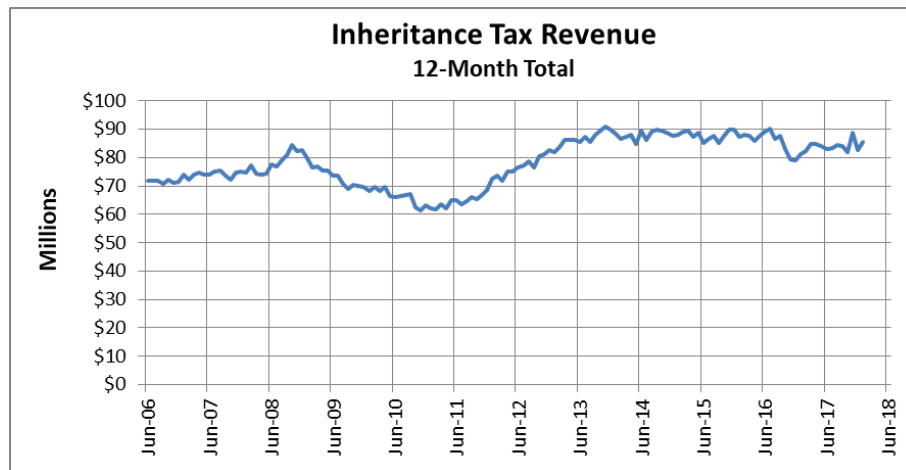
<sup>1</sup> Taxable gallons distributed in Iowa (all fuel types) over the latest 12 months totaled 2.555 billion gallons. Taxed fuel later used for an exempt purpose is eligible for a fuel tax refund. Gallons that are originally distributed for an exempt purpose are not taxed and are not included in the Department's monthly report.

<sup>2</sup> A portion of the gallons listed as unblended gasoline is later blended with ethanol.

## Tax Spotlight — Inheritance Tax

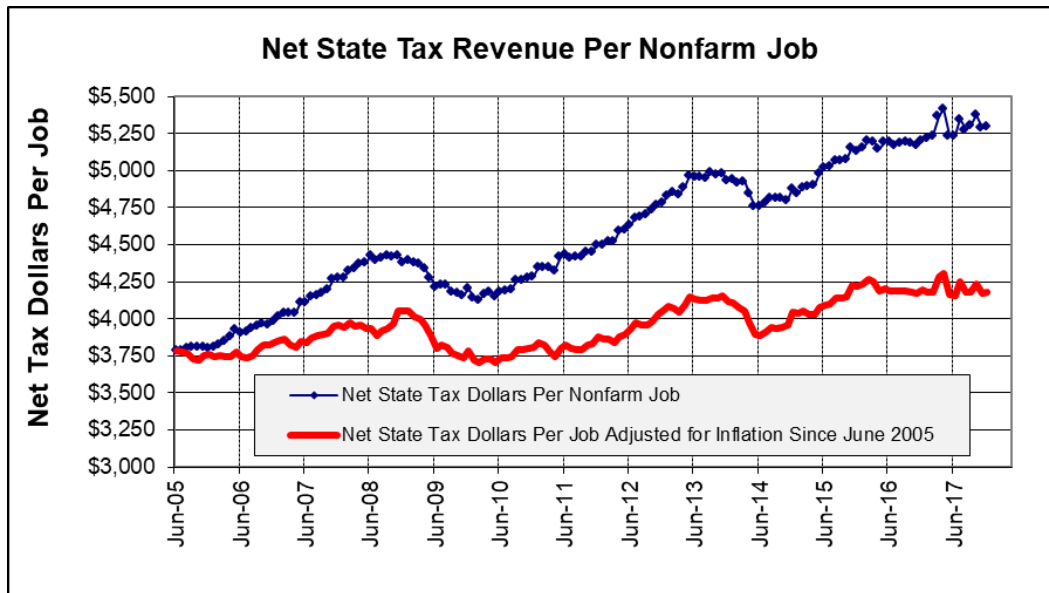
The inheritance tax is imposed under the authority of Iowa Code chapter [450](#). Tax rates range from 5.0% to 15.0% depending on the amount of the inheritance and the relationship of the beneficiary to the decedent. To be subject to the tax, the estate must exceed \$25,000 in value. Spouses were exempted fully from the inheritance tax with the passage of [SF 356](#) (Department of Revenue and Finance Tax Administration Act of 1991). [Senate File 35](#) (Inheritance Tax Act of 1997) expanded the full tax exemption to include lineal ascendants and decedents.

The qualified use inheritance tax is imposed under the authority of Iowa Code chapter [450B](#). A qualifying heir for federal tax purposes may forego inheritance tax on property used in farming or business if they maintain the business for up to 10 years. However, if the farm or other business is sold to a nonrelative prior to the 10 years, the heir may be required to pay inheritance tax.

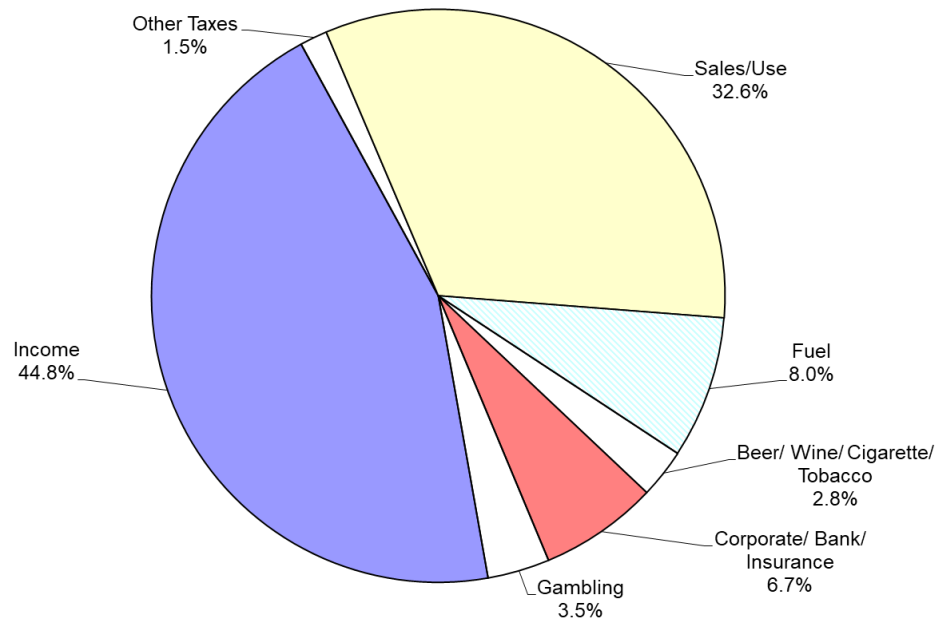


## Tax Revenue and Employment

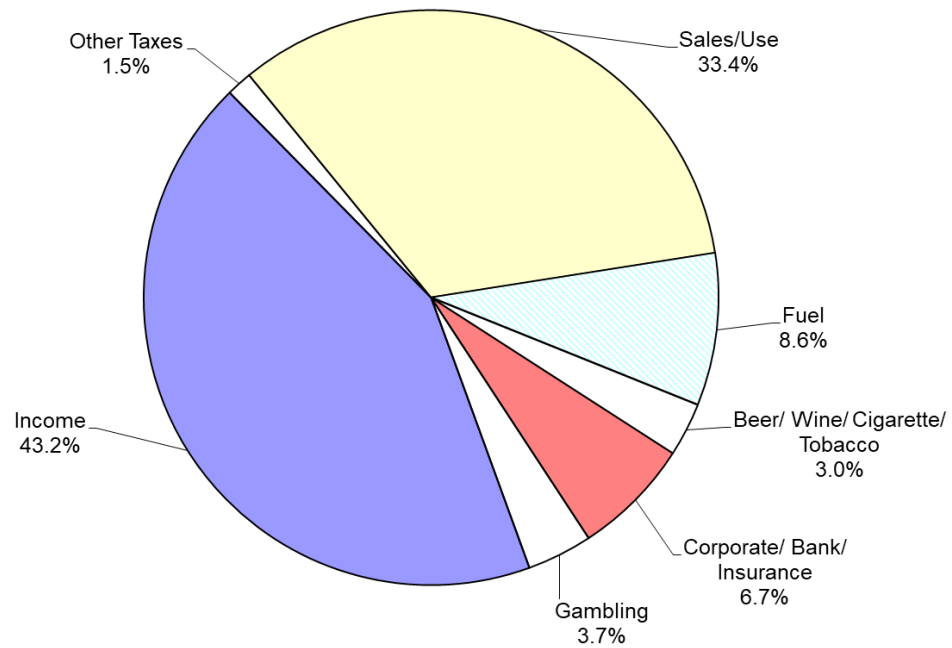
The average reading for Iowa nonfarm employment over the 12 months ending December 2017 is 1,585,500, and net State tax receipts over the same 12 months totaled \$8.398 billion, or \$5,296 per nonfarm job. This is \$1,511 higher than the per-job average for the 12 months ending June 2005. The blue (upper) line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red (lower) line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation-adjusted tax revenue per job has increased \$393 since June 2005, and the remainder of the \$1,511 increase (\$1,118) represents the impact of inflation. Note that the recent variability in both lines displayed in the following chart is due to changes in State procedures related to tax refunds and to tax deposit dates. The variability is not due to any tax changes or differences in taxpayer behavior.



**Net State Tax Revenue – Twelve Months Ending January 2018**  
**Net Revenue = \$8.689 Billion**  
 Percentages may not add to 100% due to rounding



**Net State Tax Revenue – Twelve Months Ending January 2017**  
**Net Revenue = \$8.203 Billion**  
 Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds – Cash Basis

Dollars in millions – columns and rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of January 2017</b>	<b>Month of January 2018</b>	<b>January \$ Change</b>	<b>January % Change</b>
Banking	\$ 35.7	\$ 38.7	\$ 3.0	8.4%	\$ 4.1	\$ 6.8	\$ 2.7	65.9%
Beer & Wine	22.6	22.3	- 0.3	-1.3%	2.1	2.0	- 0.1	-4.8%
Cigarette & Tobacco	225.1	218.9	- 6.2	-2.8%	14.0	16.1	2.1	15.0%
Corporate Income	391.4	432.5	41.1	10.5%	8.6	21.8	13.2	153.5%
Fuel	703.0	698.4	- 4.6	-0.7%	67.0	90.2	23.2	34.6%
Gambling	301.7	304.3	2.6	0.9%	24.2	22.9	- 1.3	-5.4%
Individual Income	3,542.7	3,895.9	353.2	10.0%	392.8	579.7	186.9	47.6%
Inheritance	81.1	85.6	4.5	5.5%	5.7	8.6	2.9	50.9%
Insurance	119.2	108.6	- 10.6	-8.9%	0.3	1.5	1.2	400.0%
Other Taxes	16.5	26.6	10.1	61.2%	3.7	- 0.9	- 4.6	-124.3%
Real Estate Transfer	21.6	22.4	0.8	3.7%	2.2	2.0	- 0.2	-9.1%
Sales/Use	2,741.9	2,834.6	92.7	3.4%	173.0	238.3	65.3	37.7%
<b>Total Net Taxes</b>	<b>\$ 8,202.5</b>	<b>\$ 8,688.8</b>	<b>\$ 486.3</b>	<b>5.9%</b>	<b>\$ 697.7</b>	<b>\$ 989.0</b>	<b>\$ 291.3</b>	<b>41.8%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 9,792.1	\$ 10,348.1	\$ 556.0	5.7%	\$ 776.9	\$ 1,050.6	\$ 273.7	35.2%
Tax Refunds	\$ - 1,589.5	\$ - 1,659.2	\$ - 69.7	4.4%	\$ - 79.2	\$ - 61.6	\$ 17.6	-22.2%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 6,543.5	\$ 7,005.5	\$ 462.0	7.1%	\$ 551.9	\$ 829.0	\$ 277.1	50.2%
Road Use Tax Fund	\$ 1,079.6	\$ 1,087.1	\$ 7.5	0.7%	\$ 96.5	\$ 119.8	\$ 23.3	24.1%
Non-GF Gambling	\$ 300.0	\$ 302.6	\$ 2.6	0.9%	\$ 24.1	\$ 22.8	\$ - 1.3	-5.4%
Other State Funds	\$ 279.4	\$ 293.7	\$ 14.3	5.1%	\$ 25.2	\$ 17.4	\$ - 7.8	-31.0%
<b>Local Option Taxes *</b>	<b>\$ 953.9</b>	<b>\$ 944.6</b>	<b>\$ - 9.3</b>	<b>-1.0%</b>	<b>\$ 71.2</b>	<b>\$ 71.0</b>	<b>\$ - 0.2</b>	<b>-0.3%</b>

\* Sales, income surtax, hotel/motel, and flood mitigation. Distributed to local governments and not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount is zero or negative so no meaningful percentage change may be calculated.

## **Tax Categories Used in Table**

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is also included in this line. Of the total deposited, the bank tax provides approximately 98.5% of the revenue and the credit union tax 1.5%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco product tax revenue was deposited in the State General Fund. Beginning with FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes was deposited in the Health Care Trust Fund and the remainder deposited in the State General Fund. Beginning with FY 2014, all cigarette and tobacco tax revenue is deposited in the Health Care Trust Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds. Beginning with FY 2014, the State no longer deposits gambling tax revenue to the State General Fund. Funds receiving deposits of gambling tax revenue over the last 24 months include the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, and the Iowa Skilled Worker and Job Creation Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees, and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the moneys, and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% of the tax collected and remit the remainder to the State. Of the 82.75% remitted to the State, 65.0% is deposited in the State General Fund, 30.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax, and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of State sales/use tax revenue is deposited in a new Sales Tax Increment Fund and used for local flood mitigation projects.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning in FY 2009, the SILO tax was converted to a 1.0% statewide tax and was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount. Flood mitigation sales tax increment transfers to local governments were added beginning July 2014.

**Report Database:** The database for this report is the State Accounting System. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.